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ANNUAL REPORT  
FIRST NATIONAL STORES  
FOR THE YEAR ENDING MARCH 28, 1964



## FIRST NATIONAL STORES INC.

### OFFICERS

ADRIAN O'KEEFFE, *President*

TIMOTHY F. HARRIGAN, *Vice-President*

JOHN L. MACNEIL, *Vice-President*

EDMUND J. MURPHY, *Vice-President*

REUBEN KAPLAN, *Treasurer*

WILLIAM A. RYAN, *Secretary and Clerk*

JOHN L. DONOVAN, *Controller*

### DIRECTORS

RALPH F. BURKARD

RICHARD C. EVARTS

BYRON M. FLEMMING

REUBEN KAPLAN

JOHN L. MACNEIL

EDMUND J. MURPHY

ADRIAN O'KEEFFE

BERNARD M. O'KEEFFE

WILLIAM A. RYAN

### EXECUTIVE COMMITTEE

JOHN L. MACNEIL

EDMUND J. MURPHY

ADRIAN O'KEEFFE



TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

Somerville, Massachusetts, June 1, 1964

Sales for the fiscal year which ended March 28, 1964 were \$723,402,174 representing a decline of 3% from the \$746,088,986 of the preceding year.

Earnings amounted to \$7,103,042, equal to \$4.33 a share, compared with \$7,788,116, or \$4.73 a share in the prior year.

Dividends totaled \$2.50 a share, as in the previous year, and consisted of four quarterly payments of 50 cents a share and a year-end special dividend of 50 cents.

The following is a brief summary of our operations:

	For the Fiscal Year Ending	
	March 28, 1964	March 30, 1963
Retail Store Sales . . . . .	\$723,402,174	\$746,088,986
Net earnings after taxes . . . . .	\$ 7,103,042	\$ 7,788,116
Per share of common stock (on average number of shares outstanding for the year) . . . . .	\$ 4.33	\$ 4.73
Net working capital (current assets less current liabilities) . . . . .	\$ 29,897,830	\$ 28,802,850
Fixed or property assets (less depreciation) . . . . .	\$ 66,259,494	\$ 66,312,301
Stockholders' equity (net worth) . . . . .	\$ 95,570,261	\$ 92,580,628

Included in this report are charts showing the results of our operations for prior years. The chart on earnings per share gives effect, for all years, to the 2 for 1 stock split in 1951.



Net expenditures for fixed assets during the year were \$11,340,740. Notes payable of \$3,000,000 outstanding at the end of last year and the \$2,000,000 of 4.50% Notes due in equal instalments from 1963 to 1967 were paid in full. Current assets at March 28, 1964 totaled \$61,502,262 and current liabilities \$31,604,432, leaving a net working capital of \$29,897,830, up \$1,094,980 from March 30, 1963. The ratio of current assets to current liabilities was 1.95 to 1 as compared to 1.79 to 1 last year. Stockholders' equity increased \$2,989,633. Thus, our financial position was further strengthened.

Twenty-eight supermarkets were opened during the year, a rate of new store development approximating that of the prior year. Twenty-five outmoded supermarkets and twelve small stores were closed. Thirty-two supermarkets were substantially remodeled or enlarged. In addition, one large store which had been completely destroyed by fire during the year was rebuilt. At the close of the year there were six hundred and one stores in operation of which four hundred and ninety-nine were supermarkets.

In an industry where the keenest of competition has always prevailed, the past year was no exception. New store openings were abundant. Costly promotional plans were employed both by your Company and other food retailers throughout the year. In addition, there was unusually severe price competition in several of our operating areas. The aggressive merchandising policies we have been following will be continued and strengthened during the present year. We intend to pursue whatever course seems best designed to build sales volume and to secure an increased share of the consumer's patronage.

During the entire final quarter of the fiscal year and for three weeks of the preceding quarter, the grocery department employees of our stores in New Jersey were on strike. While all but six of the stores remained open for business, operations were adversely affected during the entire period. The dispute, which involved management rights as well as other issues, was amicably adjusted shortly after the close of the fiscal year on terms which the Company at all times was willing to grant, even without a strike.

Efficient distribution of foods requires constant changes in our plant operations. In the past year, among other improvements, we installed a continuous flow bread baking process in one of our bakeries and a vacuum-pack process for luncheon meats at our Somerville plant. In addition, at the latter location a new electric power sub-station was constructed to meet the increasing need for power and refrigeration in our processing and distribution facilities.

Electronic computers have been in use for some time in each one of our major distribution centers. This equipment has not only enabled us to reduce our office expense but has also provided better inventory control. Inventories have been kept at the lowest possible level consistent with good merchandising practices.

Our plans call for the opening of at least twenty-five new stores during the current year. A substantial number of remodelings or enlargements will be effected. This modernization of existing stores is a continuing part of our development program.

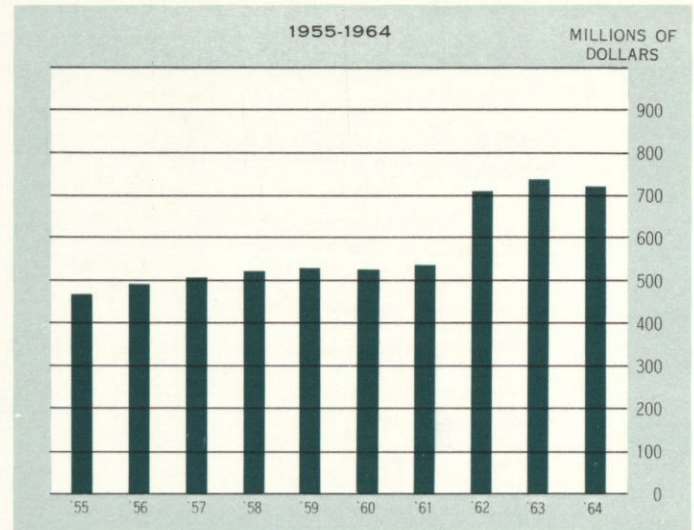
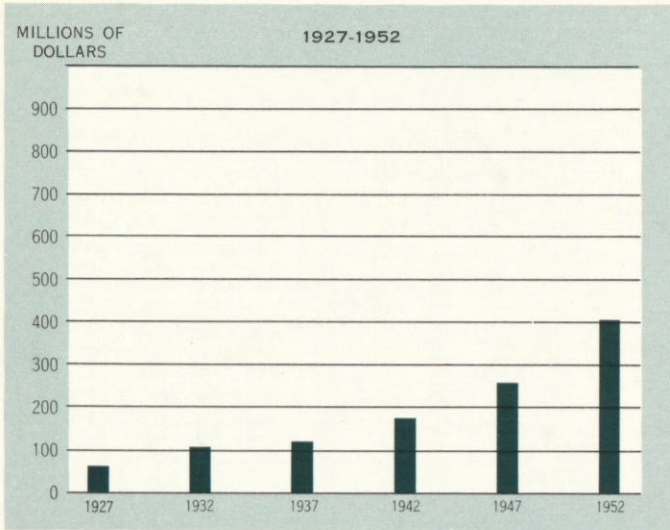
Through a variety of training activities, we endeavor to improve the performance of our employees on all assignments. During the past year a special supervisory development program tailored to the specific needs of our plant and store operations was undertaken and results to date are very satisfactory. A major purpose of our personnel programs is to provide a sizeable group of individuals well equipped for executive responsibility in the future.

Better service to our customers is our concern always. We appreciate the teamwork of First National people in all phases of our business in helping to achieve this objective.

ADRIAN O'KEEFFE,  
*President*



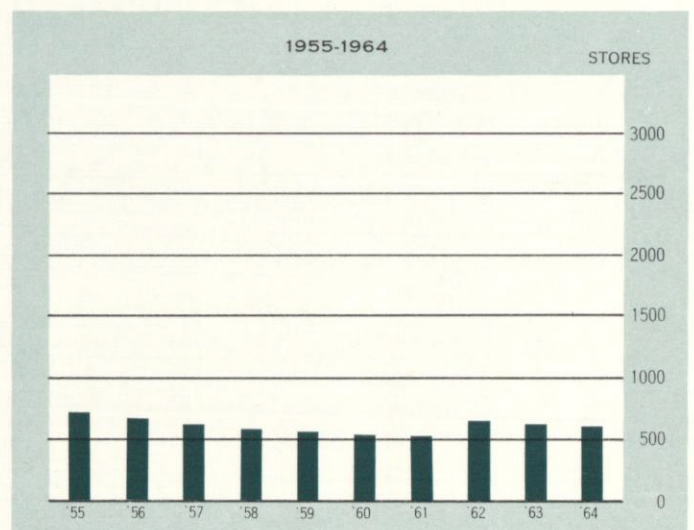
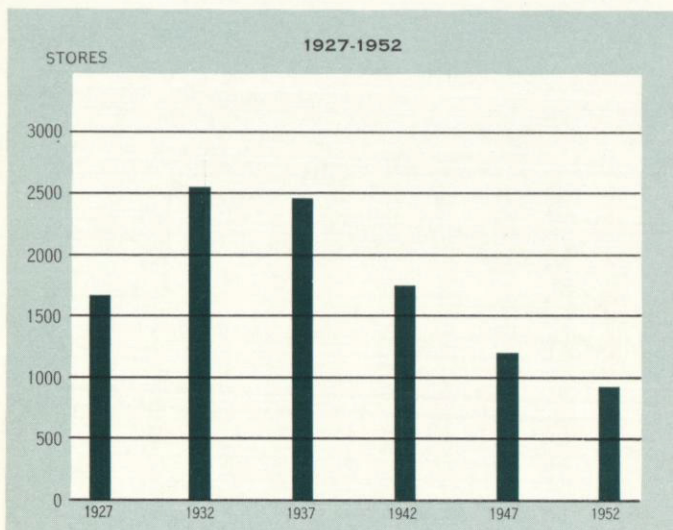
## SALES



*Retail Stores Sales — Fiscal Years*

1927	\$ 59,038,304	1934	\$105,812,781	1941	\$142,680,921	1947	\$256,506,910	1953	\$424,521,672	1959	\$531,521,108
1928	64,445,962	1935	111,323,463	1942	174,378,932	1948	315,915,554	1954	442,180,165	1960	525,350,950
1929	75,884,639	1936	119,575,417	1943	187,839,592	1949	354,444,614	1955	470,628,572	1961	536,485,553
1930	107,635,216	1937	120,682,961	1944	164,924,978	1950	344,171,022	1956	491,667,908	1962	711,303,869
1931	108,196,686	1938	124,294,617	1945	170,236,678	1951	371,853,140	1957	507,361,437	1963	746,088,986
1932	107,634,383	1939	124,222,955	1946	182,131,241	1952	406,773,153	1958	521,494,993	1964	723,402,174
1933	100,892,947	1940	131,041,157								

## STORES

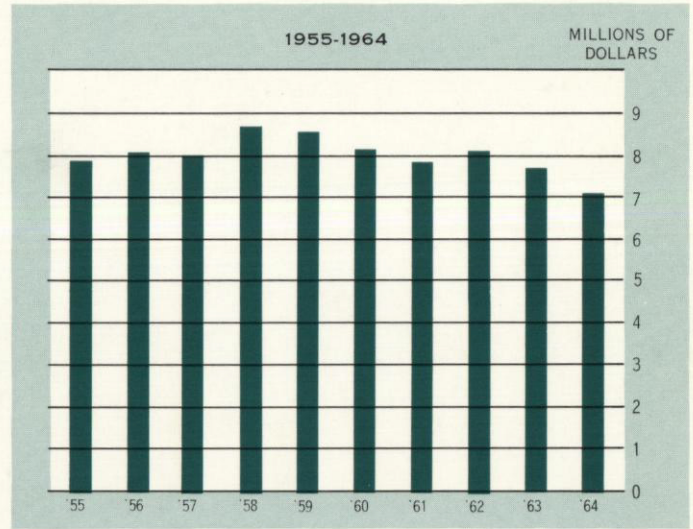
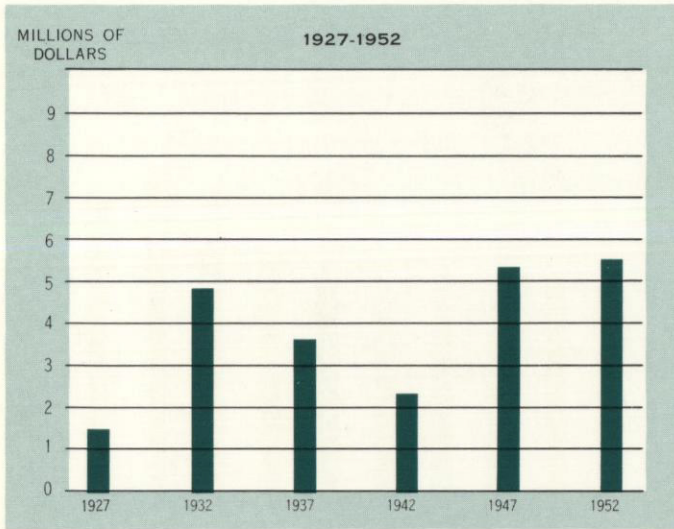


*Stores — Fiscal Years*

1927	1681	1934	2653	1941	1923	1947	1201	1953	847	1959	543
1928	1717	1935	2623	1942	1748	1948	1150	1954	761	1960	534
1929	2002	1936	2556	1943	1585	1949	1083	1955	702	1961	516
1930	2549	1937	2473	1944	1463	1950	1033	1956	661	1962	632
1931	2548	1938	2350	1945	1340	1951	979	1957	607	1963	610
1932	2546	1939	2244	1946	1236	1952	922	1958	575	1964	601
1933	2705	1940	2137								



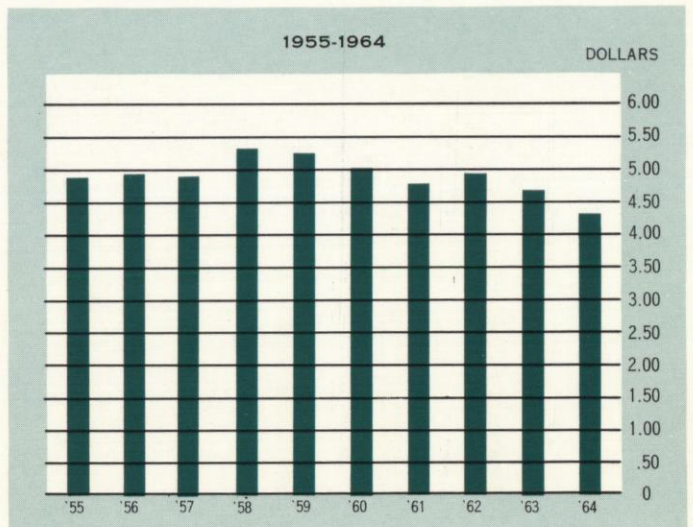
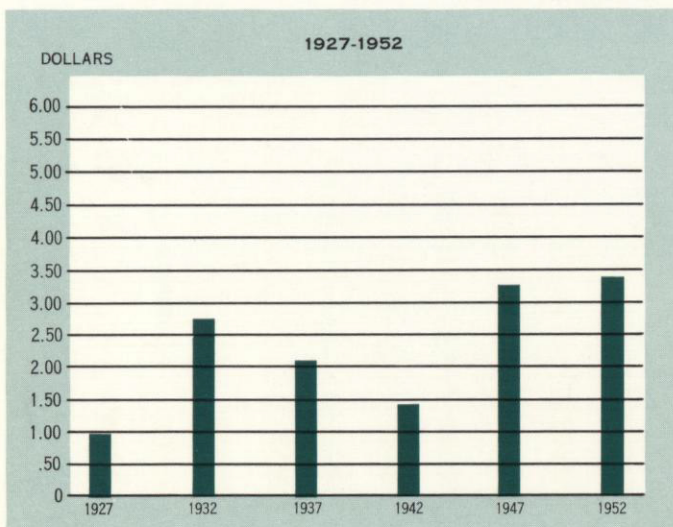
**NET EARNINGS**  
(AFTER APPROPRIATIONS)



*Net Earnings — Fiscal Years*

1927	\$1,492,193	1934	\$4,394,830	1941	\$2,508,719	1947	\$5,357,235	1953	\$6,742,051	1959	\$8,649,288
1928	1,593,358	1935	3,433,504	1942	2,380,294	1948	5,629,705	1954	6,830,629	1960	8,222,725
1929	2,904,884	1936	3,163,329	1943	2,465,079	1949	5,905,880	1955	7,968,619	1961	7,858,961
1930	4,773,446	1937	3,647,001	1944	2,235,104	1950	6,997,980	1956	8,071,326	1962	8,172,116
1931	4,479,108	1938	2,705,191	1945	2,294,604	1951	6,134,530	1957	8,039,041	1963	7,788,116
1932	4,825,611	1939	2,774,366	1946	2,885,555	1952	5,571,415	1958	8,799,277	1964	7,103,042
1933	4,220,099	1940	2,739,074								

**PER SHARE COMMON EARNINGS**  
(AFTER APPROPRIATIONS  
ON SHARES OUTSTANDING AT END OF YEAR)

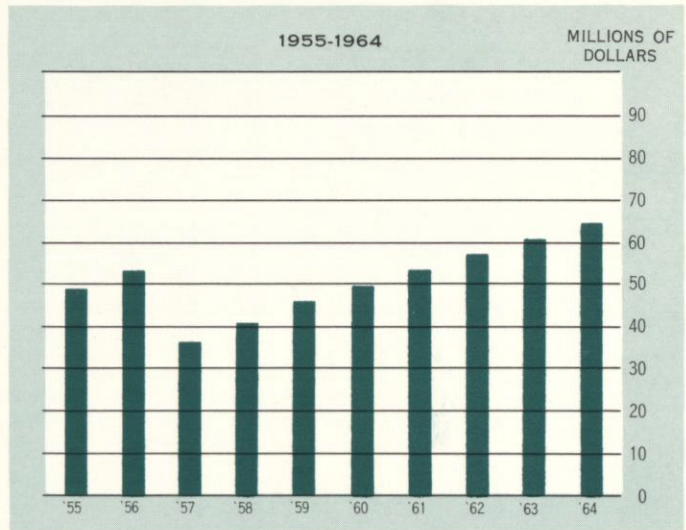
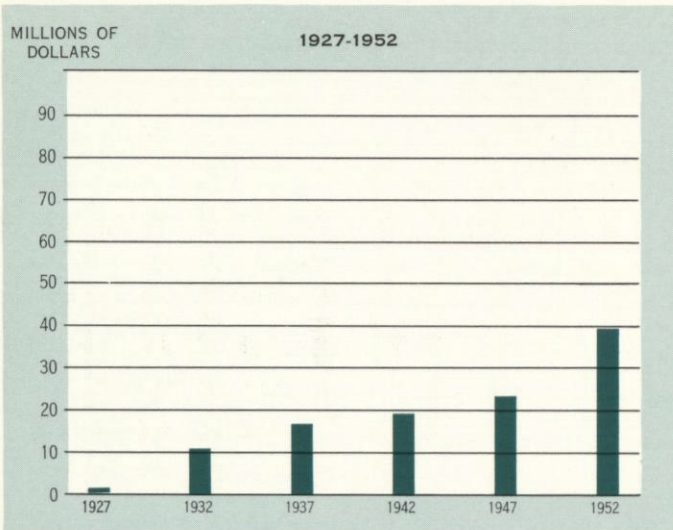


*Per Share Common — Fiscal Years*

1927	\$0.96	1934	\$2.48	1941	\$1.53	1947	\$3.27	1953	\$4.11	1959	\$5.28
1928	1.04	1935	1.95	1942	1.45	1948	3.43	1954	4.17	1960	5.02
1929	2.04	1936	1.82	1943	1.51	1949	3.61	1955	4.86	1961	4.80
1930	2.69	1937	2.12	1944	1.36	1950	4.27	1956	4.93	1962	4.98
1931	2.52	1938	1.57	1945	1.40	1951	3.74	1957	4.91	1963	4.73
1932	2.76	1939	1.69	1946	1.76	1952	3.40	1958	5.37	1964	4.33
1933	2.39	1940	1.67								



**EARNINGS EMPLOYED IN THE BUSINESS**  
(APPROPRIATED AND UNAPPROPRIATED)

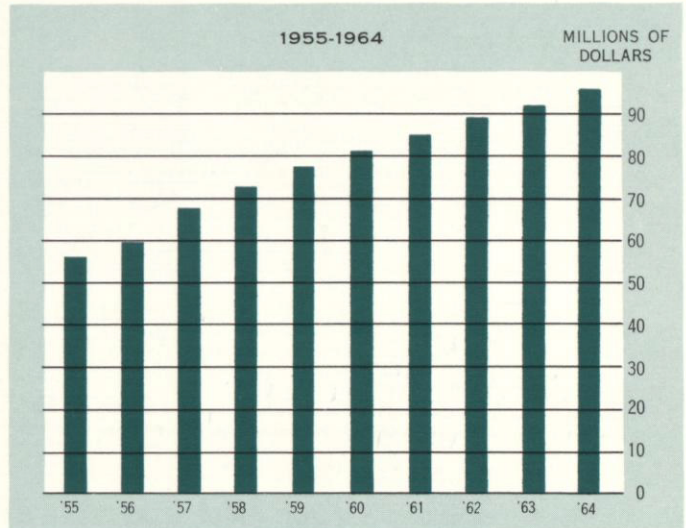
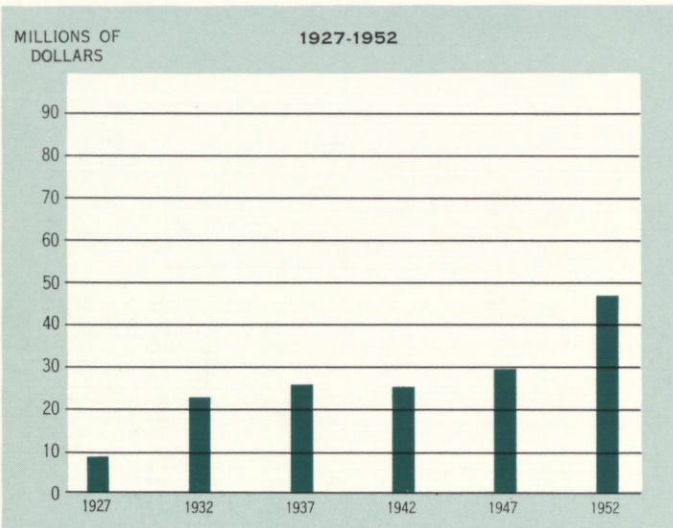


*Earnings Employed in the Business — Fiscal Years*

1927	\$ 1,996,375	1934	\$14,213,494	1941	\$18,572,964	1947	\$23,235,669	1953	\$41,807,095	1959	\$45,726,143
1928	2,238,303	1935	15,121,448	1942	18,889,476	1948	29,189,624	1954	44,954,164	1960	49,856,023
1929	3,987,782	1936	16,062,827	1943	19,308,135	1949	34,350,171	1955	48,993,652	1961	53,622,139
1930	6,369,726	1937	16,670,118	1944	19,496,819	1950	38,483,159	1956	53,135,847	1962	57,682,580
1931	8,371,910	1938	16,688,036	1945	19,745,003	1951	41,752,697	1957	36,463,268*	1963	61,370,653
1932	10,816,321	1939	17,423,131	1946	20,334,138	1952	39,604,479	1958	41,169,700	1964	64,377,458
1933	12,666,672	1940	18,112,565								

\*Transferred \$25,000,000 to Common Stock Account

**STOCKHOLDERS' EQUITY**  
(NET WORTH)



*Stockholders' Equity — Fiscal Years*

1927	\$ 8,723,782	1934	\$26,190,916	1941	\$25,293,286	1947	\$29,971,948	1953	\$48,543,374	1959	\$77,146,846
1928	8,965,710	1935	24,820,470	1942	25,625,755	1948	35,925,903	1954	51,690,443	1960	81,276,726
1929	11,724,410	1936	25,761,849	1943	26,044,414	1949	41,086,450	1955	55,729,931	1961	85,042,842
1930	18,347,148	1937	26,369,140	1944	26,233,098	1950	45,219,438	1956	59,872,126	1962	89,328,856
1931	20,349,333	1938	23,746,089	1945	26,481,282	1951	48,488,976	1957	67,883,971	1963	92,580,628
1932	22,793,743	1939	24,216,168	1946	27,070,417	1952	46,340,758	1958	72,590,403	1964	95,570,261
1933	24,644,049	1940	24,874,883								



## FIRST NATIONAL STORES INC.

## BALANCE SHEET

## ASSETS

	MARCH 28 1964	MARCH 30 1963
Current assets:		
Cash . . . . .	\$ 19,315,904	\$ 19,666,380
Accounts receivable . . . . .	4,173,869	4,563,143
Inventories, on last-in, first-out cost basis, which is below market . . . . .	38,012,489	41,236,497
Total current assets . . . . .	<u>\$ 61,502,262</u>	<u>\$ 65,466,020</u>
Fixed assets, at cost (excluding fully-depreciated assets):		
Land . . . . .	\$ 8,063,828	\$ 8,545,870
Buildings owned . . . . .	35,675,905	35,861,636
Store fixtures, leased property improvements, machinery and equipment . . . . .	89,044,909	84,276,439
Automotive equipment . . . . .	6,470,797	6,160,946
	<u>\$139,255,439</u>	<u>\$134,844,891</u>
Less — Depreciation . . . . .	72,995,945	68,532,590
	<u>\$ 66,259,494</u>	<u>\$ 66,312,301</u>
Other assets and deferred charges:		
Investment in and advances to wholly-owned subsidiary companies, at cost (represented by underlying net assets of \$1,069,960 in 1964, \$1,302,057 in 1963) . . . . .	\$ 133,500	\$ 533,500
Prepaid insurance and other deferred expenses . . . . .	5,894,467	5,607,188
Miscellaneous . . . . .	1,117,970	1,074,789
	<u>\$ 7,145,937</u>	<u>\$ 7,215,477</u>
	<u>\$134,907,693</u>	<u>\$138,993,798</u>

## NOTES TO FINANCIAL STATEMENTS

Note 1: As of March 30, 1963 options to purchase 37,200 shares of the company's common stock were held by certain officers and key employees of the company and its subsidiaries under the company's restricted stock option plan. During the year additional options were granted for 600 shares at a price of \$54.86 per share and options for 525 shares were canceled. At March 28, 1964 options for 37,275 shares were outstanding at prices ranging from \$54.86 to \$64.25 per share of which options for 18,375 shares were exercisable. Under the plan, options were granted to purchase shares of the company's common stock at prices not less than 95% of the fair market value on the date granted. The options become exercisable in equal annual instalments over a four-year period beginning one year after the date granted. At March 28, 1964, 37,725 additional shares were available for future option under the plan. The directors will consider the desirability of amending the company's stock option plan so that it will conform to the amendments made by the Revenue Act of 1964.

Note 2: In the loan agreement covering the 4.70% notes there are restrictions on the payment of cash dividends and the acquisition of the company's common stock. At March 28, 1964 the portion of earnings employed in the business available for such payments and acquisitions was approximately \$19,700,000.



FIRST NATIONAL STORES INC.

BALANCE SHEET

LIABILITIES

	MARCH 28 1964	MARCH 30 1963
Current liabilities:		
Accounts payable . . . . .	\$ 20,154,158	\$ 20,811,512
Notes payable . . . . .	—	3,000,000
Accrued expenses . . . . .	8,264,318	8,777,908
Current portion of long-term debt . . . . .	267,000	250,000
Federal income taxes . . . . .	2,918,956	3,823,750
Total current liabilities . . . . .	<u>\$ 31,604,432</u>	<u>\$ 36,663,170</u>
Long-term debt:		
4.50% Notes . . . . .	\$ —	\$ 1,750,000
4.70% Notes, due in equal semiannual instalments, 1965 to 1980 . . . . .	7,733,000	8,000,000
	<u>\$ 7,733,000</u>	<u>\$ 9,750,000</u>
Stockholders' equity:		
Common stock, without par value (Note 1):		
Authorized — 2,000,000 shares		
Issued — 1,655,268 shares . . . . .	\$ 31,977,422	\$ 31,977,422
Earnings employed in the business (Note 2) . . . . .	64,377,458	61,370,653
	<u>\$ 96,354,880</u>	<u>\$ 93,348,075</u>
Less — Issued common stock held in treasury — 16,064 shares in 1964, 15,670 in 1963, at cost . . . . .	784,619	767,447
Total stockholders' equity . . . . .	<u>\$ 95,570,261</u>	<u>\$ 92,580,628</u>
Lease commitments (Note 3)		
	<u>\$134,907,693</u>	<u>\$138,993,798</u>

Note 3: At March 28, 1964 the company had commitments under 567 leases covering stores and warehouses. Minimum annual rental commitments under these leases amount to approximately \$11,700,000. In addition to minimum rentals the company pays taxes, insurance, maintenance and other expenses related to the leased premises and, in some cases, added rentals based on percentage of sales. Most leases are renewable at the option of the company.

Note 4: In addition to depreciation provided on the cost of fixed assets in amounts which are permitted and used for federal income tax purposes, the company has continued to provide and charge earnings with accelerated depreciation on store buildings computed on a basis which is related to estimated fair rental values. Such accelerated depreciation, not currently deductible for federal income tax purposes, amounted to \$357,000 in 1964 and \$477,000 in 1963.

Note 5: The investment credit for the year ended March 28, 1964 amounted to approximately \$610,000. As a result of the change made by the Revenue Act of 1964, this entire amount has been taken into income.



# FIRST NATIONAL STORES INC.

## STATEMENT OF EARNINGS

	YEAR ENDED	
	MARCH 28, 1964	MARCH 30, 1963
Income:		
Retail store sales . . . . .	\$723,402,174	\$746,088,986
Dividends received from wholly-owned subsidiary companies (net earnings for the year — \$172,903 in 1964, \$96,262 in 1963) . . . . .	5,000	107,000
Net gain on disposal of fixed assets . . . . .	212,057	560,674
Other income . . . . .	164,403	89,391
	<u>\$723,783,634</u>	<u>\$746,846,051</u>
Costs and expenses:		
Cost of sales, expenses, etc., exclusive of depreciation . . . . .	\$699,229,423	\$719,323,678
Provision for depreciation of fixed assets (Note 4) . . . . .	11,605,604	12,353,949
Interest expense . . . . .	655,565	680,308
Provision for federal income taxes . . . . .	5,190,000	6,700,000
	<u>\$716,680,592</u>	<u>\$739,057,935</u>
Net earnings . . . . .	<u>\$ 7,103,042</u>	<u>\$ 7,788,116</u>

## STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS

YEAR ENDED MARCH 28, 1964

Balance, March 30, 1963 . . . . .	\$ 61,370,653
Net earnings . . . . .	<u>7,103,042</u>
	\$ 68,473,695
Cash dividends paid — \$2.50 per share . . . . .	<u>4,096,237</u>
Balance, March 28, 1964 . . . . .	<u>\$ 64,377,458</u>

## OPINION OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF FIRST NATIONAL STORES INC.

In our opinion, the accompanying balance sheet and statements of earnings and earnings employed in the business present fairly the financial position of First National Stores Inc. at March 28, 1964 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Boston, Massachusetts  
May 15, 1964

PRICE WATERHOUSE & CO.



Geographical Distribution  
of  
**601 FIRST NATIONAL STORES**



**TRANSFER AGENTS:** THE FIRST NATIONAL BANK OF BOSTON, BOSTON CHEMICAL BANK NEW YORK TRUST COMPANY

**REGISTRARS:** STATE STREET BANK AND TRUST CO., BOSTON BANKERS TRUST CO., NEW YORK, NEW YORK



